Northwest Territories

Small Business Loans and Guarantees Fund

Annual Report 1980·81

Northwest Territories Economic Development and Tourism

January 14, 1982

MINISTER,
DEPARTMENT OF ECONOMIC
DEVELOPMENT & TOURISM.

In accordance with the provisions of the Small Business Loans and Guarantees Ordinance, I am pleased to enclose the report of the Fund for the year ended March 31, 1981, to be tabled at the next session of the Leglislative Assembly of the Northwest Territories.

C.A. Bennett,
Vice-Chairman,
Small Business Loans
and Guarantees Board.

Attachment.

Northwest Territories

Small Business Loans and Guarantees Fund

Annual Report 1980-81

The Northwest Territories Small Business Loans and Guarantees Fund is by definition a fund of last resort, designed to provide business funding to people that because of risk or geographic location are prevented from obtaining normal commercial funding. The Fund is designed to assist in the creation, acquisition or expansion of a business in the N.W.T.

The year 1980-81 was indicative of the economic slowdown and high interest rates experienced in most of the Northwest Territories. This was a period of business consolidation brought about by the interest rates that peaked at twenty-two percent in March, 1981. Although the economy as a whole was soft during the year, some areas started to show an economic improvement. Notable among these are Tuktoyaktuk, Inuvik, and Norman Wells. Petroleum exploration was a substantial contributor to the improved economic conditions in these areas.

Other geographic areas that were influenced by mineral exploration enjoyed a fairly buoyant economy as activities in this industry were maintained at a high level throughout the year. This included such areas as Yellowknife, Fort Smith and Baker Lake. A third subject matter of interest to the Small Business Loan Fund is in the field of general contracting. A policy decision of the N.W.T. Housing Corporation to encourage local people to enter the house construction and renovation field has resulted in several applications for this type of business.

The Small Business Loans and Guarantees Fund is managed by an Advisory Board comprised of six members appointed by the Commissioner and Minister of Economic Develcpment and Tourism. Two members are from the Department and fill the capacity of Chairman and Vice-Chairman. The other four are from the business community. The function of the Advisory Board is to consider each loan proposal and make recommendations to the Commissioner who is the sole authority for the granting of loans.

The current Advisory Board consists of the following people:

Rod Morrison	G.N.W.T.	Chairman
C. A. Bennett	G.N.W.T.	Vice-Chairman
D. Bossert	Businessman	Member
R. Hardy	Businessman	Member
A. Semmler	Businesswoman	Member
D. Webb	Businessman	Member

During the year the Board held six meetings, considered thirty-four applications and approved twelve loans and six loan guarantees. The Board maintains a close observance of all active loans by means of a review that is conducted at each meeting. In this way they are kept informed on the status of each client and can recommend action in cases that warrant it.

The administration of the Fund is the responsibility of the Financial Services Section, Division of Commerce, Department of Economic Development and Tourism. This section, composed of five persons, administers two funds in addition to the Small Business Loan Fund, which Fund comprises about one third of the volume of the Section.

The Small Business Loan Fund has a good working relationship with the financial community of the N.W.T.. Of particular note are the Federal Business Development Bank and the Department of Regional Economic Expansion's Special A.R.D.A. program. In certain cases, the Federal Business Development Bank and the Small Business Loan Fund share loans on a joint participation basis. The Special A.R.D.A. Fund is a grant program that frequently complements the Small Business Loan Fund and this magnifies the intent of both sources of funding.

During the year, economic conditions and the needs of the business community indicated that emphasis should be placed on business counselling and the development of total funding proposals for clients. The philosophy of the Section of "helping people to help themselves in business" was maintained and expanded by the use of volunteers from the federally funded

"Canadian Executive Services Overseas" organization. This organization, through the use of retired and semi-retired business executives, provides management assistance and consulting services at a minimal cost for a term of up to three months. We utilized the services of up to five C.E.S.O. consultants at any one time during the year to assist various clients with generally very positive results.

The results of an actuarial study of the fund carried out in 1980 recommended that the fund be increased by 5 million dollars and further that all interest revenues generated by the fund should remain within the fund. Based on the recommendation of this study, discussions are currently underway with both the Territorial Executive and the Department of Indian and Northern Affairs to expand not only the available capital in the fund but also its parameters. The results of these discussions will hopefully be a proposal to be tabled in the Legislative Assembly in the coming year.

Since the inception of the Fund in 1970-71, 462 applications have been presented for the consideration of the Advisory Board of which 191 were approved and issued for a total of $5,937,319. In 1980-81, loans and guarantees approved amounted to $471,200. Principal repayments to the Fund during the year totalled $611,585 and interest received amounted to $307,555. At year end the active loans in force totalled $2,942,424 and interest receivable was $150,341 or 5.1 percent of the outstanding principal which is a moderate increase over last year's ratio of 4.2 percent of outstanding principal. This ratio is a measure of the Fund's success in maintaining the efficiency of loan repayments. The interest receivable has ranged from a high of 5.46 percent in 1977 to a low of 4.21 percent in 1979-80. The reduction in loan repayment efficiency is a reflection of the impact of high interest rates on our client businesses.

The principal portion of bad debts written off amounted to $77,957.21 for six loans. This brings the total write off since inception of the Fund to $168,977.67 which is 3.15 percent of invested capital. This ration is unusually low and although factual, does not take into account potential losses due to

foreclosures etc. that are in process. The probable rate may be in the area of nine percent but will only be known when the proceeds of foreclosures in process, some of them as long as four years, are known. At the time of the transfer of the Fund from the Department of Indian and Northern Affairs in 1977, it was determined that a realistic loss rate of fifteen percent would be acceptable due to the high risk nature of the Fund. Other statistical data appears at the end of this report.

The fund currently assists small businesses in all regions of the Northwest Territories. The businesses supported by the fund in 1981 employed 816 persons at an average wage of $15,000 for a total payroll of approximately 12 million dollars. This means that one job is created for every $5,000 of funds loaned out resulting in an annual return to the economy of $15,000.

SMALL BUSINESS LOANS AND GUARANTEES FUND

STATEMENT OF REVENUES AND DISBURSEMENTS

for the fiscal period

April 1, 1980 to March 31, 1981

REVENUES	
Payments received	$ 919,140.40
	$ 919,140.40
DISBURSEMENTS	
Principal portion to revolving fund	$ 611,585.05
Interest to General Revenues	307,555.35
	$ 919,140.40

SMALL BUSINESS LOANS AND GUARANTEES FUND

STATEMENT OF ASSETS AND LIABILITIES

as at March 31, 1981

ASSETS

Cash	$ 2,057,576.00
Loans Receivable	2,942,424.00
	5,000,000.00

LIABILITIES

Small Business Loans and Guarantees Revolving Fund	$ 5,000,000.00

SMALL BUSINESS LOANS AND GUARANTEES FUND
DISTRIBUTION OF LOANS
1980-81

REGION	NO. LOANS	AMOUNT	% LOANS
Baffin	1	$ 25,000	5.6
Fort Smith	2	118,900	26.5
Cambridge Bay	1	100,000	22.4
Inuvik	2	153,000	34.3
Keewatin	-	-	-
Yellowknife	2	50,000	11.2
	8	$ 447,400	100.00

SIZE			
Up to $10,000	-	$	
$10,000 to $25,000	1	18,900	4.2
$25,000 to $50,000	3	75,000	16.8
$50,000 to $100,000	4	353,500	79.0
	8	$ 447,400	100.00

INDUSTRY GROUPING			
Agricultural	-	-	-
General Construction	-	-	-
Municipal Services	1	18,900	4.2
Resource Harvesting	-	-	-
Retail	1	56,500	12.6
Service	1	25,000	5.6
Tourism & Food Service	2	125,000	27.9
Transport	1	100,000	22.4
Trucking	1	97,000	21.7
Other	1	$ 25,000	5.6
	8	447,400	100.00

SMALL BUSINESS LOANS AND GUARANTEES FUND
INDUSTRY GROUPING AS AT MARCH 31, 1981

INDUSTRY GROUPING	NO. LOANS	VALUE	% OF PORTFOLIO
Consumer	1	$ 6,450	.2
General Construction	4	142,613	4.8
Municipal Services	4	45,942	1.6
Other	12	391,375	13.3
Resource Harvesting	9	135,488	4.6
Retail	10	308,278	10.5
Service	24	435,062	14.8
Tourism & Food Service	14	437,954	14.9
Transport	20	796,343	27.0
Trucking	6	242,919	8.3
	104	$2,942,424	100.0

SMALL BUSINESS LOANS AND GUARANTEES FUND
REGIONAL DISTRIBUTION OF LOANS
as at March 31, 1981

REGIONAL	NO. LOANS	VALUE	% OF PORTFOLIO
Baffin Region	5	$ 95,717	3.3
Fort Smith Region	74	2,028,342	68.9
Cambridge Bay Region	4	186,298	6.3
Inuvik Region	20	579,284	19.7
Keewatin Region	1	52,783	1.8
	104	$ 2,942,424	100.00

SIZE			
Up to $10,000	26	$ 161,315	5.5
$10,000 to $25,000	35	607,834	20.8
$25,000 to $50,000	28	1,013,503	34.3
$50,000 to $100,000	15	1,159,772	39.4
	104	$ 2,942,424	100.00

SMALL BUSINESS LOANS AND GUARANTEES FUND
LOAN FUND STATISTICAL REVIEW
FROM INCEPTION OF PROGRAM

	1970-71	1971-72	1972-73	1973-74	1974-75
Applications Received	18	33	51	43	79
Loans Approved	7	14	24	16	37
Value of Loans Issued	$115,500	$306,058	$595,380	$ 291,400	$ 784,600
Value of Guarantees Issued					
Principal Repaid	$ 2,095	$ 19,202	$ 53,218	$ 93,846	$ 233,747
No. Loans Repaid	-	-	1	2	8
Foreclosures or Write Offs	-	-	-	-	-
Principal Outstanding	$113,405	$400,261	$942,423	$1,139,977	$1,690,830
Interest Received	$ 415	$ 17,862	$ 34,042	$ 72,607	$ 92,538

SMALL BUSINESS LOANS AND GUARANTEES FUND
LOAN FUND STATISTICAL REVIEW
FROM INCEPTION OF PROGRAM

	1975-76	1976-77	1977-78	1978-79	1979-80	1980-81
Applications Received	40	41	42	48	33	35
Loans Approved	15	17	19	18	18	8
Value of Loans Issued	$ 33,500	$ 627,345	$ 770,399	$ 683,709	$ 942,029	$ 587,400
Value of Guarantees Issued				$ 100,00	$ 161,400	$ 471,200
Principal Repaid	$ 287,255	$ 222,254	$ 569,799	$ 341,229	$ 560,589	$ 611,585
No. Loans Repaid	6	6	15	9	15	8
Foreclosures or Write Offs	3	6	8	10	6	-0-
Principal Outstanding	$1,737,074	$2,142,165	$2,342,765	$2,685,245	$2,966,609	$2,942,424
Interest Received	$ 135,279	$ 180,876	$ 224,286	$ 237,671	$ 295,573	$ 307,555